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Economic Conditions
Governmental Finance
United States Securities

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Retrospect and Prospect.

THE third year has passed since the armistice was signed, and the world is yet far from restored to normal working conditions, not to speak of recovery from the losses sustained in the conflict. In Europe much work has been done for the re-building or restoration of properties that were destroyed or that suffered deterioration, and progress has been made in the reorganization of production. The railroads are in much better condition than in 1919, the coal mines have been in part restored and industry generally, so far as physical facilities are concerned, is now able to operate in a fairly efficient manner. Moreover, social conditions are in some respects notably improved. The revolutionary spirit has subsided, the people appear to be willing to work. The crops in Europe west of Russia were good in 1921, the agricultural class is doing well, and in most of the countries on the continent that class is very powerful in the governments and exercises a conservative influence.

The most serious feature of the European situation is the state of the currencies, to which we gave some attention last month. The governments have been running upon a scale of expenditures ever since the war that they have been unable or unwilling to meet by taxation, and have resorted to currency issues to cover the deficits, until the position of some of them is critical. As yet, the peoples are not sufficiently impressed with the gravity of the situation to support the governments in necessary measures of reform. There is unwillingness, both on the parts of governments and peoples, to face the stern conditions of the time. Production is reduced, trade is demoralized, the resources of the peoples are diminished, and until these difficulties are overcome they must be met by adjustments in public and private expenditures. The fall of the German mark, and notice from the German government that it will not make the January reparations payment in full, has reopened the reparations question, which of course is the paramount issue in Europe.

Hopeful Signs

Over and against these disquieting conditions there have been of late certain important developments, which give promise of substantial relief from some of the burdens of taxation, of better international relations and a better spirit in the world. The international conference, in Washington, after raising hopes very high, came to a disappointing conclusion upon the submarines, but this will not obscure its very substantial achievements. The prospect for a settlement of the status of Ireland which will give peace and the stimulus of new ambitions to the Irish people and at the same time relieve England from the expense and distraction which the Irish question has involved, is also of large significance. The co-operation and leadership of England is needed in the financial rehabilitation of Europe, and peace with Ireland is an important condition for her effective participation. Finally, there are signs in France of a growing appreciation of the necessity for maintaining the financial stability of all Europe, giving ground for hope that at the coming meeting of the Supreme Council of the Allies some plan will be developed by which the immediate menace involved in the reparations situation will be removed. There are certain facts which must have consideration, whatever the judgment may be as to Germany's moral obligations. The state of world markets is not such as to make it possible for Germany to build up great export balances at this time, and as a matter of fact, Germany's imports have exceeded her exports during the past year.

Some idea of the attitude of Great Britain upon the reparations question, and of the conditions likely to be exacted in consideration for any alteration of the terms may be had from the following extract from a recent speech by the Chancellor of the Exchequer:

> The collapse of Germany, if that were unfortunately to be caused by any action on the part of the Allies, would be a misfortune, not only for Germany, but for Europe and for the world. What are we suffering from to-day? Among other things, perhaps, and more than any other things, we are suffering because there are so many derelict countries in Europe at the present time. Austria and Russia, which used to be our customers, are no longer able to purchase our goods, and to that cause you can attribute a cer-

tain amount of the unemployment and depression which exist among us at the present time. But suppose you added to those countries a broken Germany. The catastrophe to Europe would be unspeakable. It would be a disaster not only from the economic point of view, but no man could foretell what its reverberations would be in the political sphere. What then if we were to put pressure upon Germany? Well, she might be able to pay or she might not, and that is the question, the immediate question, which has got to be inquired into.

But, if concessions are to be made, there are some things which first ought to be observed. Germany, as a whole, is saying that she cannot pay reparations which she is under obligation to perform, but she is doing several things which act against the possibility of her meeting her obligations. Let me take one or two examples. She is subsidizing the price of bread in Germany. That is done at the expense of the taxpayer. It makes a deficit in the revenue of the State, but its effect in Germany itself is this. The industrialist employer is able to buy his labour at a cheaper wage because of the subsidy to bread which is given by the State.

In another direction also she subsidizes the employer. The railways which are operated by the State are run at a loss. I think in the last quarter it amounted to something like £15,000,000 sterling. That creates another tap in the State's Budget, and it enables the industrialist to get his goods carried at a cheaper rate than he ought to obtain. Coal is being sold to-day in Germany at about half the price which is paid for coal anywhere else in the world to-day. That is another form of State subsidy, and therefore, while the German State itself is paying out money from the pockets of the taxpayers, there are certain individuals at least in Germany who are growing wealthier by reason of the subsidies which are granted by the State.

If we are to forego our just rights in relation to German reparations, even for a period, which I do not think we ought to decide to do, but if we are, one thing is plain, that Germany must get rid of those subsidies in order to put herself in a position to perform her proper obligations to the people to whom she is indebted. One more thing, she must make her taxation yield revenue which will meet her expenditure; within some period to be fixed she must cease to print paper marks in order to meet her deficit.

Conditions in the United States

In estimating the outlook for 1922 it is necessary to consider the causes of the depression and inquire to what extent they have been removed or are likely to be overcome. The rapid decline of the European demand for our products is one of the causes. As compared with the war years, our exports during the last year show a great falling off, but as compared with years before the war they are well above the latter in the aggregate, although not in all lines. Exports of cotton for the fiscal year ended June 30, 1921, were about 3,000,000 bales below the average of the five years next preceding the war, which is a sufficient explanation of the great fall in price of that commodity.

It cannot be confidently affirmed that the foreign demand for our products will increase in 1922 or even be maintained at the level of the past year. As to foodstuffs much will depend upon European harvests. Agriculture will be restored everywhere but in Russia. The purchasing power of Europe seems now to depend chiefly upon mastering the currency problem, but there is a strong presumption that the countries will manage to export enough of their own products to buy food necessary to keep their people from starving.

One factor of importance in 1921 which probably will be reduced in 1922 is the importations of gold. In 1921 they aggregated over $600,000,000. This gold is believed to have come largely from Russia, and that source of supply must be nearly exhausted. Of the current output of the mines of South Africa and Australia, we probably will continue to get a share.

Unbalanced Industry

The principal factor in the depression is within the control of the American people. It exists in the unbalanced relationship between the prices of farm and other primary products on the one hand and the prices of manufactured goods, transportation service and various other products and services on the other hand. The final estimates of the Department of Agriculture upon the 1921 crops give them a market value to the farmers $8,000,000,000 below the value of the crop of 1919 and $3,400,000,000 below the value of the crop of 1920. These are figures of great significance. The farmers have produced nearly as much in quantity, but it has been valued in the exchanges at less than one-half the figures of 1919. As other products and services have not declined in like degree, the farmers must buy much less, and all the industries are suffering in consequence.

It is useless to expect a return to normal conditions while this disparity of compensation between great bodies of producers exists. It is unfair and it establishes an effective blockage against a revival of business. It is time that the business community took cognizance of the situation, and set itself to the task of correcting it. The argument that stock on hand was purchased at higher prices has lost whatever force it ever had. Merchants who are interested in the return of prosperity should do their part for it, and one of their duties is to reduce operating costs.

In large part the situation is chargeable to the action of organized labor in clinging to the war-time wage rates. Raw materials and foodstuffs have had a great decline at wholesale, but between the wholesale markets and consumers the cost of handling and manufacturing has not declined in like proportions. The effect is to obstruct the distribution of goods and throw millions of wage-earners out of employment, at the same time keeping up the cost of living on the entire wage-earning population. In the aggregate there is no gain, but a great loss, to the wage-earners as a class.

Railroad Wages

The railroad companies are struggling with a difficult situation, and although their efforts are in the public interest they have little help from the public. Railroad wages in shops and for common labor are so far above the wages paid for similar work along their lines that the companies find it practicable to make important savings by contracting for their repairs and much other work. The New York Central has contracted for freight-handling at some of its terminals, and the Erie has contracted for track-maintenance over a portion of its line. The operation of railway repair shops always has been regarded as a matter of policy within the discretion of the management. If a company can save money by operating its own shops it should do so, and by the same reasoning if money can be saved by letting out the work, that should be done. The railroads are maintained primarily to give service to the public, and the public is entitled to have them operated upon a level of costs corresponding to what the public pays and receives for like labors and services. Continuity of service and merit in service may well be recognized, but compensation should be based upon the value of services rendered. Any other system would make railroad employes a favored class, at the expense, not of the railroad companies, but of the public, including millions of people who have less pay than the railroad men.

We have a letter from Montgomery, Ala., in which the writer says:

> The producers are forced to sell beef for from 1½ to 3 cents per pound and hides for from 1 to 3 cents, and the consumers pay from 25 to 40 cents per pound for steak and from $8 to $15 per pair for shoes. The same is true of all other products. The negro porters on railway trains get a salary of from $100 to $200 per month for eight hours of easy work a day; while the farm laborers work from 10 to 14 hours a day in the dew and cold and receive a salary of from $8 to $15 per month, and the farmer loses money paying that salary. Something is radically wrong and I fear the result will not be good for our country."

The prospect is for a cessation of coal-mining when existing contracts expire on April 1st. The pay for mining coal is so far above what it was before the war that the price of coal is one of the most serious obstacles to the general reduction of living costs and the revival of industry. The increased cost of coal and increased cost of transportation are causing more unemployment and more hardship in this country than any other two influences that can be named. No predictions can be ventured as to when industry will be running full time so long as it labors under such handicaps.

Agricultural Conditions

Conditions in the agricultural sections are far from inspiriting, but in the cotton country the feeling is a little better. The final government estimate upon the cotton crop is 8,340,000 bales, which compares with the October estimate of 6,537,000 bales, an increase that might have been expected to play smash with the market. The explanation given for this extraordinary revision is that the Department of Agriculture was crippled in the bureau of estimates by a reduction of its force of investigators, and was misled as to the acreage planted in cotton. The ginnings proved the inaccuracy of the October estimate, and the conclusion seems to be forced that the acreage curtailment was much less than claimed by the organizers of the movement.

The first effect of the revised estimate was to cause cotton to sell off, January contracts going under 17 cents, but since then with good conditions in the cotton goods trade prices have advanced about two cents the pound. Exports of cotton since June have been well above those of the corresponding months of last year, and there is some feeling in the British cotton trade that world stocks of cotton goods are low and that better buying is not far off. Trade in India is unfavorably affected by the patriotic boycott of British goods.

The Government's final report makes this country's production of wheat about 54,000,000 bushels above former figures. Exports for the twenty-five weeks ended December 22, as reported by Bradstreets aggregated 231,000,000 bushels against 238,000,000 in the corresponding time last year. The market has been unsettled and fluctuating, but at the end of December was upon about the same level as at the beginning. The world's needs and supplies seems to be closely balanced in this crop, but the growing crop in this country is rated at a low condition.

The West has a surplus of corn which rests heavily upon the market, but prices have held their own during the past month, and gained a couple of cents, partly on the strength of prospective purchases for Russia. Cattle are depressed, but hogs around $7 per hundredweight in Chicago yield a fair return to the farmer who has grown a good crop of corn. Dairy products also are bringing fair prices.

Farmers who own their land and are out of debt can get along very well under present conditions, although local taxes have been pushed up in recent years until they are as much as rent was twenty years ago. Farmers who went into debt for land at the prices ruling two years ago have an interest charge which cannot be met from the land. This will be the first year in a great many in which numerous defaults will occur in the payment of interest upon farm mortgages.

There is good reason to believe that present prices for farm products are about the lowest that will be seen. The last two seasons have

been unusually favorable for the grain crops. The carry-over of wheat certainly will not be large and the growing crop has a poor start. It would be remarkable to have another bumper corn yield after three great crops, and there is reason to believe that less corn will be planted this year. Moreover, it is likely that the hog crop will be increased. During the years when corn brought high prices, it became the popular thing to sell corn and a good many farmers got out of hogs. They are likely to get back to a more evenly balanced agriculture, with more milch cows, more pigs, more grass and forage crops and more scientific culture.

Money and Investments.

The credit situation is vastly better than it was a year ago, owing chiefly to liquidation in commercial and industrial centers. Liquidation has proceeded slowly in the agricultural territory, but the borrowing between reserve banks has ceased, each reserve institution being now squarely on its own feet. The reserve percentages are high, and this has occasioned some criticism, but they are due more to a growth of reserves than to a reduction of liabilities. The interest rate is down now at all the reserve banks to not more than 5 per cent.

As to the demand for money, a distinction must be made between money wanted for new purposes and money wanted to pay old debts. There is a great demand for the latter purpose, but very little demand for the former. There is no reason for adding to the productive capacity of the industries while the existing capacity is largely idle. The readjustments in industry will have to be completed before the demand for new capital for development purposes will revive.

Meanwhile industrial companies continue to borrow by means of bonds for the purpose of clearing up bank indebtedness and providing for prospective needs. This policy is contributing to increasing ease in the banking situation. An issue of $30,000,000 of 15 year 6 per cent debentures at 98½ by the American Sugar Refining Company is one of the important recent issues of this class.

The Investment Market

The investment securities market made a great record in the last two weeks of December, with the following successful flotations:

$55,000,000	New York City 50 year 4½% Corporate Stock, at 104¾ and interest, to yield 4.27%.
$30,000,000	Kingdom of Denmark 6% Bonds, due Jan-1, 1942, at 94½ and interest, to yield 6½%.
$25,000,000	Canadian Pacific Railroad 4% Consolidated Debenture Stock, at 78, to yield 5.13%.
$30,000,000	American Sugar Refining Company 15 year 6% Debentures, at 98½ and interest, to yield 6.15%.
$12,753,000	Louisville and Nashville First and Refunding 5½% Bonds, due April 1, 2003, at 101¼ and interest, to yield 5.45%.
$12,500,000	International Paper Company First Refunding 5% Bonds, due January 1, 1947, at 87 and interest, to yield 6%.

The Government bond market received a set-back the early part of last month as the result of suggested Government issues occasioned by the discussion of the Bonus Bill in Washington. Prices declined from one to two points, but the last few days have seen a strengthening in Government securities. This reaction is the first real decline which has taken place since last September. The 3½s sold at 93, the Second 4¼s sold under 95, the Third 4¼s at 96.30 and the Fourth 4¼s at 95⅝. The market has strengthened, however to the average extent of about 1 per cent, and the Victory notes remained strong, closing at 100.02.

It seems evident that the more stable foreign governments have now established their credit on a 6½ per cent to 7 per cent basis, as compared with 8 per cent earlier in the year. Our stronger industrials are obtaining a 6 per cent return, as compared with 8 per cent. Our first grade municipals have advanced from a 5 per cent return to approximately 4 per cent and our railroads are financing themselves on a 5½ per cent basis, as compared with a 6 per cent and 7 per cent rate heretofore.

The average of forty high grade securities as reported by the Wall Street Journal of December 28th is 83.50, compared with 83.55 November 28th and 73.85 on December 28, 1920.

Inflation and Deflation.

Every period of violent price fluctuations, accompanied by like fluctuations in the use of credit, excites acrimonious controversy upon the subject of inflation and deflation. There is comparatively little protest against inflation, for the immediate effect of rising prices is to stimulate business, and everybody tries to recoup for the higher prices he must pay by pushing up his own prices or wages. A period of inflation is usually regarded as one of "good times," which so far as most people can see may last indefinitely, while a period of deflation is regarded as an interruption of good times, probably brought about by some sinister influence. It will be found, however, that the severity of deflation corresponds to the extent of inflation, being a natural reaction after an over-stimulated movement in the other direction.

An "inflation" of credit means an expansion which has exceeded normal proportions. The use of credit increases naturally with the growth of wealth and business, but at times it is over-stimulated and increases more rapidly than the growth of wealth or the physical vol-

ume of production and trade. This is necessarily a temporary movement, because it is impossible that outstanding credit shall for very long increase faster than the growth of actual wealth. Credit is a reflection of wealth, dependent upon wealth, and if it increases faster than the latter it will soon become fictitious and discredited.

An excessive use of credit during a period of general confidence means a corresponding exercise of purchasing power, and prices move upward under the influence. The markets get out of balance, over weighted on the buying side. This situation is plainly artificial and impermanent. Credit cannot go on increasing indefinitely at that rate, unless all relations to actual values are abandoned, and this fact puts a limit on the rise of prices. The markets, moreover, in the course of a rising movement get into a state where unless they can keep on rising they are bound to decline.

Excessive Use of Credit

A period of rising prices always increases the volume of outstanding indebtedness. This is the growing factor in the situation which eventually causes it to break down. The simple fact that prices are higher makes it necessary to use more credit in handling the regular volume of business, but rising prices also encourage people to go into debt. The more deeply a man goes into debt the more money he is likely to make, so long as prices are rising. He is tempted to over-trade, to spread his own capital as a thin margin over as much business or property as possible. Evidently this is a pernicious tendency, leading away from conservative policies and from stable business conditions. It develops indifference to debt, and the longer the rising price movement continues the greater will be the number of people involved and the narrower the margins. The situation becomes progressively weaker as indebtedness increases. It lacks the reserve power to meet unfavorable developments, and when the upward price movement falters and speculation for a further rise ceases, the situation soon becomes overweighted on the selling side and prices fall precipitately.

Plight of Rich Agricultural State

It is instructive to observe how a people who enjoyed for ten years a very high degree of real prosperity, have become embarrassed by the free use of credit which this prosperity prompted and enabled them to make. The state of Iowa is one of the most productive agricultural regions in the world, and occupied by an industrious, intelligent and efficient population. That these people will work out of their present difficulties is beyond all question, but they are suffering severely at present from the fact that their credit was good and they were too eager to use it.

The state has never known a crop failure, and the decade from 1910 to 1920 was an unusually prosperous one. If the net earnings of those years from the soil and the various industries had been applied to paying debts and improving the productive capacity of the farms and industries, and if there had been no land boom or stock flotations, there would be no serious trouble in the state now.

Unfortunately they were misled, like many others in all lines of business, by a temporary prosperity which was based upon a great calamity in another part of the world, and did not make allowance for the after-effects of the terrible waste of wealth and the industrial and social disorganization which resulted.

Growth of Indebtedness

It is surprising to learn from the census report recently issued that the aggregate farm mortgage indebtedness of Iowa increased from $205,000,000 in 1910 to $490,000,000 in 1920, or about 140 per cent. This is largely due, probably, to sales at higher prices, but the very facilities available for borrowing doubtless had much to do with the rise of prices. It is authoritatively stated that two-thirds of the borrowers from the Federal Land banks are already owners of land, who borrow for the purpose of buying more. Thus competition with each other, together with that of speculators, prompted by high prices for farm products, was largely responsible for the rise and the great new burden of indebtedness. Of course somebody has received the proceeds of these mortgages, or has claims to receive them in the future, but the state is no richer than before and the situation is made more difficult by the indebtedness.

A similar increase of indebtedness at banks took place, particularly in 1919 and 1920. At the end of June, 1919, the indebtedness of Iowa at the Federal Reserve bank of Chicago was $12,000,000. This was after all the war loans had been floated. Another good crop and year of high prices followed, for the slump of prices did not come until the Fall of 1920. Undoubtedly, if the people of Iowa had been interested to do so, they might have largely reduced their indebtedness in that year, and the debt at the reserve bank might have been extinguished, but the inclination was to increase indebtedness rather than to reduce it, and by December, 1920, the Iowa indebtedness at the reserve bank had risen to $98,000,000.

A leading farm journal, published at Des Moines, itself a critic of the banking system for attempting, as it charges, to force deflation, a few months ago candidly stated that

in spite of the temporarily bad conditions, so far as the average Iowa farmer is concerned, there are thousands of farmers who own their own farms, and who saved money during the war, who are better off than ever in former years. These men," says the editorial, "are of the sort who move in the opposite direction from the crowd."

This is literally true, and so in every community and in every line of business there are to be found men who went through all of that wild period and kept their heads so well that they came out unscathed. The very fact that this is true proves that the chapter of disaster was largely unnecessary, and the result of disregarding sound business principles and the lessons of the past. It has been a very bad situation because so many people contributed to make it so.

The War Chief Cause of Inflation

The war, of course, was the original cause of inflation. It was thought necessary for the banks to lend freely in order to aid the government and the industries during the war. The enormous exports during the war and in the year following, advanced and sustained prices, and seemed to require a greater use of credit. Insensibly the people came to accept abnormal conditions as permanent, and yielded to the seductive influence of rising prices, until in the Fall of 1919, although the war had ended a year before, the demands for more credit were more insistent even than in the war time. The changes in reserve requirements had enabled the member banks to meet these demands up to that time mainly from their own resources, but by the Fall of 1919, the member banks were loaned up so close that from that time on they found it necessary to supply additional demands largely by passing the loans up to the reserve banks, and the latter were close to their limit under the law. The course of inflation had been run to the limit set up by law, and money was as tight at the limit as it had been at any stage of the movement, which has been true of every period of inflation in history.

Distribution of Federal Reserve Credit

When Iowa's borrowings at the Federal Reserve bank of Chicago were at the peak it was stated by the authorities of the bank that this was much more than Iowa's proportional quota of the bank's loanable funds. Some loyal representative of the state has challenged this statement and affirmed that Iowa, on some basis not disclosed, was entitled to have had $300,000,000.

It would seem to be a strange grievance, in the light of today, on the part of an Iowan, that the state was not allowed to get into debt up to $300,000,000 instead of $98,000,000. One might think that the payment of the latter sum would be a large enough task to satisfy the ambitions of the most ardent champion of the state. It is not probable that the lending of the larger sum in Iowa, either with or without a corresponding curtailment elsewhere, would have materially affected the prices of Iowa products in the markets of the world.

It is interesting to speculate, however, on the basis of the claim that Iowa's share of the available credit was rightfully $300,000,000. It must be based upon some calculation of Iowa's share of the total credit resources of all the reserve banks. The system, however, was planned to make the twelve districts practically independent of each other. The authors were afraid that the influence of New York City might dominate in the system, so they confined each reserve bank to its own territorial district for its capital and deposits, which are the resources available for loans, but in the last days of debate a provision was fortunately added giving the Federal Reserve Board authority to require one reserve bank to lend to another. On the strength of that authority all of the Eastern reserve banks have been constant lenders during the past year, in large sums, to the reserve banks of the South and West.

The idea undoubtedly prevails throughout the South and West that somehow those sections have been given the worst of it by the reserve system, but there is no ground for it. When the bill for the reserve act was pending, the favorite argument in behalf of twelve independent banks was that the State of Texas alone was as large as the German empire, and as each country of Europe had its own central bank, so each section of this country should be served by its own institution. The intent to limit the influence of New York was carried so far as to put Jersey City and Hoboken in the Philadelphia district.

Reserve Banks Do Not Lend Government Credit

The government lends no resources to the reserve banks. The capital and deposits come from the member banks, and while the notes are government obligations in form, the government makes no provision for redeeming them on its own account, but requires that they shall be covered to the extent of 100 per cent in commercial paper and 40 per cent in gold, deposited by the issuing bank with the government's custodian, the Federal reserve agent. The intent of the law is that the banks shall be reservoirs of credit for their districts, that they shall confine their operations conservatively within their own resources, and primarily for the service of their own districts. The amendment permitting inter-bank borrowing, under the approval of the Board was a hesitating concession to the advocates of a

central bank, who urged that the industries within a single district would be all subject to like conditions and all wanting to draw down their deposits and borrow at the same time, while throughout the country as a whole conditions would be more nearly equalized and stable. As a result of the amendment, the Boston, New York, Philadelphia and Cleveland banks, which represent districts in which manufacturing and commerce predominate, have loaned constantly during the past year to the banks where agriculture predominates. Any calculation which purports to show that the people of Iowa have a right to some percentage of the assets of the reserve banks of other districts is made without a correct understanding of the system.

The Paper Money Heresy.

Washington dispatches during the past month reported a meeting presided over by Senator Ladd, of North Dakota, held for the purpose of promoting a new political party, the object of which is "to have the government resume its proper function of issuing money and of providing credit to all the people on terms of equality." The Senator estimated in his speech that a loss to all industrial classes of $88,000,000,000 has resulted from deflating the value of farm products, which he said could be traced to the "non-functioning of capital" held by a few great corporations, whatever he may mean by that. He advocated a federal loan bureau which he proposes shall advance credits to farmers on warehouse receipts, and also make advances on city real estate up to 50 per cent of its value, on farms to 60 per cent of the land value and 40 per cent of the value of improvements.

It is worthy of note that W. H. Harvey, of Arkansas, at one time known to fame as the author of "Coin's Financial School," a tract which figured largely in the free silver agitation of 25 years ago, is mentioned as prominent in this new movement.

It will not surprise anybody who is familiar with the history of cheap money agitation, to learn that the old financial heresies must be dealt with again. They spring up spontaneously in every period of hard times, because people in distress are receptive to promises of speedy relief. The fiat money idea has an air of plausibility. Everybody is wanting money, seeking to exchange their products or services for it; if business is bad, if unemployment exists, there would seem to be a scarcity of money, and why not have the government put more of it into circulation?

It is not a new idea; nobody now living can advance it with any new argument, or give any argument for it that has not been refuted by experience. It is old enough to have been tried in nearly every country and discarded in all. At this time it is the curse of Europe, and although advocated here as in the interests of the masses against monopolists, there is abundant evidence that the wage-earning class of Germany is getting less in purchasing power for its labor than it did under the gold standard and far less than the wage-earners of this country at the present time. The fact is that an inconvertible paper currency is utterly demoralizing to all business and therefore beneficial to nobody.

Nevertheless, it would be a mistake not to recognize that the fiat money idea always has had a strong appeal in times when debts were heavy and prices low, and the fallacies of the doctrine should not be allowed to go unanswered.

Fiat Money for Public Improvements

The fiat money theory probably would not get very far on the advocacy of mere political champions, but it becomes dangerous when it succeeds in obtaining the support of business men of prestige and influence, as occasionally happens. The Greenback movement of the seventies, against the resumption of specie payments, was strengthened by the support of Peter Cooper, founder of the Cooper Institute, a business man of large success and high standing. His educational opportunities in early life were limited, but he was a very able and practical man within the range of his knowledge. Subsequent events showed that he was all wrong in his apprehensions as to the effect of restoring the money of the country to the gold basis.

Mr. Henry Ford has made a proposal to the United States Government to take over the power plant at Muscle Shoals on the Tennessee River, Alabama, and make a large investment there in industrial works, provided the Government will complete the power-generating plant, which will require an additional expenditure estimated at $30,000,000. Mr. Ford is a very successful manufacturer, and as such his proposal to lease the property is entitled to respectful consideration. He suggests, however, that instead of raising the required $30,000,000 by taxation or by a bond issue, the Government should print paper money to that amount and use it in payment for labor and materials. This is an undisguised proposition to finance the Government by printing money, differing in nothing but degree from the policies that have reduced the currencies of central and eastern Europe to the border of utter worthlessness. It is true that the European governments have been hard pressed for revenues to meet their current expenses, but there is no difference so far as effects upon the money itself is concerned between printing currency for the ordinary expenses and printing it for public improvements.

The Origin of Wealth

Mr. Ford's distinguished friend, Thomas A. Edison, has given out an interview in support of the plan, in which he lays emphasis mainly upon the saving of interest. He states the argument as follows:

"That is to say, under the old way any time we wish to add to the national wealth we are compelled to add to the national debt.

"Now, that is what Henry Ford wants to prevent. He thinks it is stupid, and so do I, that for the loan of $30,000,000 of their own money the people of the Unit≥d Stats should be compelled to pay $66,000,000 —that is what it amounts to, with interest. People who will not turn a shovelful of dirt nor contribute a pound of material will collect more money from the United States than will the people who supply the material and do the work. That is the terrible thing about interest. In all our great bond issues the interest is always greater than the principal. All of the great public works cost more than twice the actual cost, on that account. Under the present system of doing business we simply add 120 to 150 per cent to the stated cost.

The first paragraph raises the question of how wealth is produced. The term "national wealth" usually includes all the wealth in a country, but it seems to be applied here only to wealth owned by the national government. We do not think, however, that a government can create wealth by any different processes than individuals. A government is only an agency for an association of individuals. It has no magical powers. It cannot create something out of nothing. It cannot even support itself, but is dependent for its existence upon the collection of taxes.

We have been taught in the past that all wealth comes from labor applied to the resources of nature. The primitive man had nothing but his hands with which to work, but he learned to make tools and machinery and eventually to harness the forces of nature for power; in other words he learned to accumulate and use capital in production.

It is a slow task to increase the capital fund; it takes time, labor, economy, self-denial, to accomplish it. The world gets ahead by digging ditches, laying walls, opening new fields, discovering new processes, building machinery; not primarily by printing money or signing promissory notes. Money and bank credit are useful as facilities for aiding industry and trade, but they are subordinate factors. Society advances, first, by producing new wealth, and second, by saving out of the production of today something to aid production tomorrow. It moves a step at a time, rising tomorrow upon what it builds today. It is a slow, laborious process, but up to this time no other has been found.

After an individual has accumulated wealth he has the basis of credit, and may borrow capital to use in expediting his plans, but the person from whom he borrows must have the wealth and forego its use in order that the borrower may have it. Credit is not a substitute for capital; it is only an agency for making capital more readily available. There is no getting something for nothing. Warnings against attempting to do that abound in the lessons of experience.

The Powers of Government

Mr. Edison doubtless would agree that this has been the law of progress in the past, and that it applies to individuals, but like many people before him he thinks that governments may be superior to the law, that by their control over the issue of money they may be able to create values without any effort or outlay on their part beyond that involved in operating a printing press.

Whether this theory is sound or erroneous is a matter of tremendous importance, and fortunately the answer does not have to be made on the weight of theoretical opinions. The experiment has been tried many times, and results show that while it is possible to have work done and paid for by printing money for the purpose, the effect is not to increase the total of existing values, but to depreciate other values and throw all values into confusion by deranging the monetary system.

Let us, however, first consider Mr. Edison's objections to a bond issue as a means of raising the capital required.

A Bond Issue

The Government might raise the capital required for this Muscle Shoals enterprise by taxation or by borrowing through an issue of bonds. In either case it would be going to the public for real wealth, produced and accumulated by individuals, asking them to forego the use of it and devote it to this purpose. Mr. Edison speaks slightingly of the people "who will not turn a shovelful of dirt nor contribute a pound of material," but who, if the project is financed by a bond issue will receive as interest several times as much money from the United States as the people who do the work and furnish the material. The answer to this is that the people who buy the bonds will supply the capital to pay for the shoveling and the materials on the spot. The account is square that day as between them and the people "who do the work and supply the material." The bond-buyers will have made their contribution in their own way. They will have produced an equal amount of wealth, and devoted it to this purpose. Mr. Edison might buy a round lot of the bonds, and as one of his industries is the making of phonographs his payments very likely would be from the proceeds of phonographs; or if Mr. Ford subscribed for bonds his payments probably would be from the proceeds of automobiles. Under the cir-

cumstances their phonographs and automobiles would be contributions to the dam as truly as the cement or structural steel that went into it. And so a salaried man or wage-earner who bought bonds with his savings would have as real a part in the construction of the dam as the laborer who shoveled dirt upon it, and who was paid from the proceeds of the bonds.

The Justification for Interest

As for the interest—that in the main is pay for waiting. It is proportionate to the length of time the bond-buyers are to wait for the return of their capital. The dirt-shovelers and material-furnishers are not asked to wait for their pay. They have had it from the bond-buyers, out of the stores of capital which the latter have accumulated in their various occupations, such as making phonographs and automobiles. Would Mr. Edison ask the shovelers to wait 30 or 40 years for their pay without compensation? If not, what reason is there for slurring the bond-holders for receiving compensation? Have they rendered no service in producing and saving wealth and in advancing it for the construction of productive works and in waiting many years for reimbursement?

Does the idea of thrift have the significance we have been accustomed to attach to it? Does it mean anything of value to the community? Does it have any influence in developing the character of a people? Is there any moral basis for the idea that we should expect to pay for useful service rendered in our behalf? If these questions are to be answered in the negative, there will have to be a radical revision of what we have been accustomed to regard as fundamental principles.

If it costs effort and self-denial to accumulate capital and such accumulations promote the general welfare, it must be right that there shall be rewards for it.

The Source of Interest

The statement that in the event of a bond issue the bond-holders will draw from the Government an amount of interest several times as great as the principal does not tell the whole story. If the bonds draw 5 per cent, interest payments will equal the principal in 20 years and double the principal in 40 years, but why does Mr. Edison take no account of the earnings of the property during this time? If the works are worth constructing, they will create enough new wealth to meet the interest and eventually reimburse those who advanced the principal. If this is the case, and upon no other ground is the work justified, the interest payments will be no burden to the Treasury, or to anybody; they will represent new wealth, not in existence before, created by the investment of wealth supplied by the bond-holders.

Mr. Edison speaks eloquently of the centuries of service to be derived from the dam—of the "endless, wealth-making power of the great Tennessee river." Why begrudge a small share of that wealth as compensation to the persons who will have supplied the means for the development?

Moreover, why speak of the compensation to bond-holders as though the wealth of the country was reduced by whatever they receive? It is agreed that the water-power will increase the wealth of the nation by increasing the wealth of its people. The ultimate end sought is not wealth in the government treasury, but wealth in the possession of the people. The wealth paid as interest is not lost to the country; it is as likely to be serviceable in the hands of the people who advanced the capital for the dam as in the hands of others. Very likely it will be converted into capital and used to aid other like enterprises.

This is the normal course of industrial development, by which all the progress of the past has been accomplished. There is nothing "terrible" about interest if it is a necessary reward for social service, and if it is paid out of new wealth created by the service rendered. There is no difference in principle between interest and profits; both are justified upon the theory that a service has been rendered, and in both cases the return upon capital contributes to the growth of capital and to general community advancement. The careers of Mr. Ford and Mr. Edison both exemplify this fact, at least so far as the growth of capital from profits are concerned. They have accumulated large wealth, but they have given value for it, and that which has remained in their hands has afforded the means for the development of great industries.

Money Brokers

Mr. Edison uses the term "money brokers" in a way that may convey the idea that bond-flotations are somehow accomplished by mere money manipulation, without the transfer or investment of real values. This inference is untrue, and it is unfortunate that there should be misunderstanding about what bonds represent, or of the service rendered by the people who buy them. The capital raised by bond issues comes from many people, and often in small individual sums. We have heretofore called attention to the fact that for the recent issue of $50,000,000 of New York Telephone Company bonds, $22,000,000 was subscribed in sums of $1,000 and $500. As to brokers' commissions for selling bonds, it is well-known that the federal government has paid no commissions in recent years. The marketing of bonds, however, like the market-

ing of anything, requires time and intelligent effort and is a legitimate business. The offering of $55,000,000 bonds of the City of New York last month was bought outright by bond dealers at 103.40 and offered to the public in single bonds or as wanted at 104.75. A great many attempts have been made to distribute bonds direct to investors without intermediate expense, but an extensive selling campaign cannot be conducted without expense, and experience has shown that established bond-houses can do the marketing more economically than it can be done by borrowers for themselves.

The most recent instance of an attempt at direct marketing has been by the State of North Dakota, which last year opened an office in New York and offered its bonds over the counter, advertising them extensively. The effort was soon abandoned and the State entered into a contract with a bond house with headquarters at Toledo to sell $5,000,000 of its 5 per cent bonds upon a commission of 5 per cent. Incidentally it may be added that suit was brought by citizens of North Dakota to enjoin the completion of the contract on the ground that the law authorizing the bonds did not permit their sale for less than par, and that the commission-contract was in violation of the law. The State courts, including the Supreme Court, have granted the injunction.

Money and Capital

Mr. Edison's statement that the construction of the Muscle Shoals project with borrowed capital would mean that the people would be paying interest upon $30,000,000 of "their own money," shows that he has fallen into the common error of confusing money with capital. We have already seen that if bonds are issued to raise capital, the people who subscribe for them will make payment with the proceeds of some service that they have rendered. We have assumed that Mr. Edison might subscribe and pay with the proceeds of phonograph sales. These sales are constantly creating credits for him in banks, and if he subscribed for Muscle Shoals bonds he probably would make payment by drawing a check on a bank account. Even if he used the check to draw money and conveyed the money for the bonds, the essential fact would be that the products of his factory, and not any wealth created by the Government, paid for the bonds. Money, if used at all in the transaction, would be used merely as an instrument of transfer,—a safe, convenient medium, provided by the Government, by which people may exchange goods or services.

Whatever an individual may be offering in the market, whether it be phonographs, automobiles, professional services, or any of the diverse products and services that make up modern business activities, his ultimate purpose is to exchange it for other products and services, and the banking and monetary system of the United States supplies the means of ready conversion.

Money is a very important factor in the system, not so much for the part it plays directly as for the part it plays indirectly, as the standard of value and as the basis of the much greater volume of exchanges that are handled through the banks. Any tampering with the money that affects its value will affect all transactions stated in terms of money, although no money is used in consummating them. It is, however, a mistake to think that the Government in supplying or supervising money is providing the capital with which business is done. The capital which carries on business is private property. The demand for commodities and services does not arise primarily from the existence of money, but from the wants of the people and from their having a variety of products and services which they wish to exchange. The Government in authorizing or supplying money does not create capital, but supplies a convenience of exchange.

Mr. Edison says, truly, that "the higher you go in civilization, the less actual money you see. It is all bills and checks." Probably 95 per cent of the payments in trade are accomplished through the banks and clearing-houses by mere offsets and book entries, and that fact of itself ought to raise doubt about the exaggerated importance of the paper money supply. Paper money is nothing but the small change of this country. All instruments of exchange, however, derive their meaning from the definition of the word "dollar" in the coinage laws of the United States.

The Service of Gold

Neither Mr. Ford nor Mr. Edison see any use for gold as money. The former says that what is wanted is a "unit of energy" to serve as a standard of value. That is the very idea which underlies our monetary system. Given money of stable value, goods and services are valued to each other in the exchanges approximately on the basis of the units of energy and skill that they represent. It is necessary, however, to have something tangible to represent a unit of energy. If a currency note was printed to represent "one unit of energy," nobody would know what it was meant to be worth. Even a note which purported to be worth "one dollar" would have no definite meaning until the word "dollar" was defined. It gets its value from the fact that it is attached to 22.23 grains of gold. The nations have gone through a long process of evolution to develop the best representative for trade

use of a unit of energy, or in other words, the best genuine representative of value, and they gradually came to an agreement upon gold.

The Value of Gold

It is idle to argue theoretically against the intrinsic value of something that from the dawn of history all the world has esteemed. Gold is practically imperishable. has high value in proportion to bulk and the fluctuations in the annual production are small in proportion to the accumulated stock. These qualities, together with the universal esteem in which it is held, have made it a preferred class of property for accomplishing trade settlements between countries, and favored its use as the basis of monetary systems. It created before the war a common relationship of values the world around, the importance of which should be appreciated in the presence of the chaos now existing in the exchanges.

It is true that not even a monetary system based upon gold can assure prosperity at all times. It supplies only one of the conditions. Nothing that can be done to the monetary system will alone give prosperity. Even with an ideally perfect "unit of energy," as a standard of value, it would still be necessary for the people in different occupations to reach an amicable understanding as to the relative value of their products and services. That is the problem that is disturbing business and making unemployment now.

A moment's reflection will show that something else is of more importance in money than that it shall be plenty and cheap. The record of the Russian rouble or of the German mark in recent years should satisfy anybody of that. Stability is the quality above everything else most desired. It has been the judgment of the world that for convenience and stability gold is the best basis for monetary systems that has been found. It is not perfect, for the production of gold depends upon the mines, but all experience goes to show that the fluctuations of the new supply are far less to be feared than fluctuations in the the supply of fiat paper money, which governments may print without limit.

Limitations Upon Paper Money

Is the plan of printing money to supply capital for public improvements intended as a substitute for all thrift and all private accumulations? If not, it is a serious matter to discredit the latter.

If this plan is not a complete substitute for private saving, where is the line to be drawn? If the Government can finance enterprises without cost, except for the expense of operating printing presses, why should any construction or expenditure for the purpose of supplying the wants of the population be held back to the slow, old processes of capital accumulation?

Mr. Edison, however, sees that there are limits to the practical operations of the plan. He admits that there may be too much paper money, but says that for that matter there may be too much gold, and that somebody may find a way to make gold. It may be admitted that when this happens gold will be no more suitable for the standard of value than fiat paper money, but meanwhile it has some advantages.

A Simple Rule

He has a very simple rule for determining how much paper money should be printed. He says:

> There is just one rule for money, and that is, to have enough to carry all the legitimate trade that is waiting to move. Too little or too much are both bad. But enough to move trade, enough to prevent stagnation on the one hand and not enough to permit speculation on the other hand, is the proper ratio.

That, of course, is no rule at all. It leaves the matter an open question, a perpetual subject of controversy, with all values in a state of uncertainty, dependent upon acts of Congress from day to day and from year to year. There is no question upon which opinions could be more at variance, for there is no limit to the opportunities to use money, if "money" is confused with capital. As long as there are any water-powers unimproved, there will be opportunities to use money, particularly if it can be had by printing.

The amount of money required to handle the regular business of the country depends upon the level of prices, and as the level of prices depends on the volume of money the argument on that basis runs in a circle. In the wildest periods of inflation ever known the cry has been for more and more money.

A Soviet journal published in Moscow in a recent review of the monetary situation in Russia states that at the beginning of the war the amount of paper roubles outstanding was 1,630,000,000; by the end of 1917 it had reached 27,300,000,000, at the end of 1919, 225,000,000,000 and at the end of 1920, 1,168,-000,000,000. The statement goes on to say that at the date of writing, October, 1921, prices in Moscow were 48,600 times higher than in 1914, and the editor argued that, on this basis, the present monetary circulation was insufficient. He calculated the country's present needs for currency at 48,500,000,000,-000 roubles.

This reasoning is no different from that of the critics of the Federal Reserve banks, who insisted in the Fall of 1920 that the reserve banks should continue to finance the expansion of loans by the member banks, although

the increase of such loans after the date of the armistice had been twice as great as during the period of the war.

Mr. Edison goes on to say:

When these bills have answered the purpose of building and completing Muscle Shoals, they will be retired by the earnings of the power dam.

He is too conservative. He lacks vision. Other communities will see that the activity and expenditures at Muscle Shoals can be duplicated elsewhere, and it is far more probable that dozens of such authorizations will follow than that any of the paper money so issued will be retired. No government ever got very far in the retirement of inconvertible paper money that had once been put into circulation. That is an historic fact to be kept clearly in view.

There may be other people who, while admitting that fiat paper issues may be carried too far, are disposed to think that $30,000,000 is so small a sum in relation to all the money and credit in use in the United States that no serious harm could come from the one proposition. But, if the policy is unsound, it is unsound and dangerous from the beginning, and the saving of interest on $30,000,000 is nothing in comparison with the risk incurred in adopting the policy. If no ill-results were immediately noticeable, that of itself would strengthen the arguments in behalf of more proposals. There would be no stopping place so long as ill-effects did not appear, and no stopping place afterward, as all experience attests. The first dose is poison, and every succeeding one intensifies the craving for more.

Whoever feels inclined to favor small experiments along this line will have to co-operate with Senator Ladd and his party, whose avowed intentions are to "provide credit to all the people on terms of equality," and trust them to determine the amount required for the legitimate needs of trade.

Wrong in Principle

The fundamental error is in proposing to start the Government out as a capitalist before it has any capital, and with a check-book before it has any credit upon which it has a right to draw. The idea of starting with nothing and creating something of value without cost, is like a proposal to stand in space while building a foundation to stand on. Governments, like individuals, should adhere to sound principles and keep close to real values in their financial operations. Governments have a source of credit in the taxing power, but no other. It is absurd to talk about the great resources of the nation as a basis of credit when there is no intention of drawing on them, and utterly unsound to inflate and derange the currency as an incident to an industrial undertaking.

The fiat money theory is unsound in that it cuts loose from any concrete standard of value. The currency is tied to nothing of real value. It is issued without any rule as to quantity, upon the impulse, or guess, or necessities of the government. Every additional issue depreciates the value of all that is outstanding, and by so doing affects all business relationships, including the value of wages, cost of living, and obligations of every kind in terms of money. It throws all financial relationships into confusion and substitutes uncertainty for confidence throughout the business world.

The Currencies of Europe

Of all the ills that affect the countries of Europe at this time those arising from their depreciated currencies are the worst. Additional issues constantly increase the cost of living, add to the expenses of the governments and defeat their attempts to balance their budgets by taxation. They are traveling in a seemingly hopeless circle, Treasury deficits causing fresh issues of money and these issues increasing the deficits. There is not sufficient popular understanding of the dangers of the situation to enable the governments to stop the presses. They keep on helplessly printing money and raising salaries to offset the resulting depreciation.

No one dares enter into a contract to build a house in Germany, or do anything that involves expenditures and a lapse of time before payment is received, without numerous conditions all of which mean risk to somebody. There must be an extra margin of profit in all business to cover currency fluctuations.

It is an essential principle of the fiat money theory that the money of each country need have no relation to the money of any other country. There is no common standard of value, hence no way of valuing one money in another, or of giving firm quotations in international trade. The greatest obstacle to the recovery of international trade is the confusion in the exchanges, due to the fact that the gold standard is broken down.

The French Assignats

We referred last month to the account of the French "assignats" given by the Hon. Andrew D. White, for many years President of Cornell University and one of the most learned and able men of this country, and gave extracts at some length from his work. He states that when he gathered the data for this sketch it was with a view of using it in his course of instruction as a teacher of economics, and without any thought that the people of the United States would ever be in danger of being beguiled by the fiat money

doctrine. In 1876, when the greenback movement was strong, through an invitation by General Garfield and other sound money men in Congress he read a paper upon the French experience before a meeting of senators and representatives in Washington, which is the basis of the publication afterward made.

In a preface written in 1912, Dr. White says of the French assignats (so called because of the lands that had been assigned to secure them):

In thus exhibiting facts which Bishop Butler would have recognized as confirming his theory of "The Possible Insanity of States," it is but just to acknowledge that the French proposal was vastly more sane than that made in our own country. Those French issues of paper rested not merely "on the will of a free people," but on one-third of the entire landed property cf France; on the very choicest of real property in city and country—the confiscated estates of the Church and of the fugitive aristocracy—and on the power to use the paper thus issued in purchasing this real property at very low prices. Our proposed unlimited issue of "fiat" money in the United States, whether paper or silver, rested on the judgment, the will and the schemes for political success or personal gain of such political financiers as might be put in control at Washington and who would doubtless be astute enough to see and to use the enormous possibilities for stock-jobbing and gambling which would certainly accrue to those who, by controlling the issues of the circulating medium, could raise or depress the price of every ounce of every share of stock, every bond, every yard of every fabric, every ounce of every commodity within the United States.

Dr. White shows by quotations from the debates in the French Assembly that the French legislators were not ignorant of the dangers of irredeemable paper money. They had had bitter experience with the issues of John Law's bank 70 years before. He says that "it was no mere attempt at theatrical display, but a natural impulse, which led a thoughtful statesman, during the debate to hold up a piece of that old paper money and to declare it was stained by the blood and tears of their fathers."

He continues:

But the current toward paper money had become irresistible. It was constantly urged, and with a great show of force, that if any nation could safely issue it, France was that nation; that she was fully warned by her severe experience under John Law; that she was now a constitutional government, controlled by an enlightened, patriotic people,—not, as in the days of the former issues of paper money, an absolute monarchy controlled by politicians and adventurers; that she was able to secure every livre of her paper money by a virtual mortgage on a landed domain vastly greater in value than the entire issue; that, with men like Bailly, Mirabeau and Necker at her head, she could not commit the financial mistakes and crimes from which France had suffered under John Law, the Regent Duke of Orleans and Cardinal Dubois.

Oratory prevailed over science and experience. In April, 1790, came the final decree to issue four hundred millions of livres in paper money, based upon confiscated property of the Church for its security.

To crown its work the National Assembly, to explain the advantages of this new currency, issued an address to the French people. In this address it spoke of the nation as "delivered by this grand means from all uncertainty and from all ruinous results of the credit system." It foretold that this issue "would bring back into the public treasury, into commerce and into all branches of industry, strength, abundance and prosperity."

Some of the arguments in this address are worth recalling, and, among them, the following: "Paper money is without inherent value unless it represents some special property. Without representing some special property it is inadmissible in trade to compete with a metallic currency, which has a value real and independent of the public action; therefore it is that the paper money which has only the public authority as its basis has always caused ruin where it has been established; that is the reason why the bank notes of 1720, issued by John Law, after having caused terrible evils, have left only frightful memories. Therefore it is that the National Assembly has not wished to expose you to this danger, but has given this new paper money not only a value derived from the national authority but a value real and immutable, a value which permits it to sustain advantageously a competition with the precious metals themselves."

The first notes bore 3 per cent interest, a cautious provision against over-issue, the theory being that if there were more than required by the needs of trade a portion would be withheld from circulation for the interest. The result verified the assertion that there is no such thing as an over-issue of money in the opinion at the time. This first issue, considered ample and possibly too large, gave a temporary fillip to trade, but within three months the cry went up for more. On the 27th of August, 1790, a committee of the Assembly, with evident reluctance, reported in favor of another issue. It said that there was danger in the issue of paper money, but that the situation was critical, and "we must save the country!"

On the 29th of September, by a vote of 508 to 423, a bill for the second issue of assignats, 800,000,000 livres, double the amount of the first issue, passed the Assembly. The interest feature was dropped, but a pledge was given that no more would be issued. This pledge was violated by another bill, on June 19, 1791, for 600,000,000 more.

The situation a year later is described as follows:

On the last day of July, 1792, came another brilliant report from Fouquet, showing that the total amount of currency already issued was about twenty-four hundred millions, but claiming that the national lands were worth a little more than this sum. A decree was now passed issuing three hundred millions more. By this the prices of everything were again enhanced save one thing, and that one thing was labor. Strange as it may at first appear, while the depreciation of the currency had raised all products enormously in price, the stoppage of so many manufactories and the withdrawal of capital caused wages in the Summer of 1792, after all the inflation, to be as small as they had been four years before—viz., fifteen sous per day. No more striking example can be seen of the truth uttered by Daniel Webster, that "of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with paper money."

After this Dr. White says:

New issues of paper were then clamored for as more drams are demanded by a drunkard. New issues only increased the evil; capitalists were all the more reluctant to embark their money on such a sea of doubt. Workmen of all sorts were more and more thrown out of employment. Issue after issue of

currency came; but no relief resulted save a momentary stimulus, which aggravated the disease. The most ingenious evasions of natural laws in finance which the most subtle theorists could contrive were tried— all in vain; the most brilliant substitutes for those laws were tried; "self-regulating" schemes, "interconverting" schemes—all equally vain. All thoughtful men had lost confidence. All men were waiting; stagnation became worse and worse. * * *

Another symptom is described as follows:

With the masses of the people, the purchases of every article of supply became a speculation—a speculation in which the professional speculator had an immense advantage over the ordinary buyer. Says the most brilliant of apologists for French revolutionary statesmanship, "Commerce was dead; betting took its place. * * * * * * But these evils, though great, were small compared to those far more deep-seated signs of disease which now showed themselves throughout the country. One of these was the obliteration of thrift from the minds of the French people. The French are naturally thrifty; but, with such masses of money and with such uncertainty as to its future value, the ordinary motives for saving and care diminished, and a loose luxury spread throughout the country.

The following account of disorder caused by the rise of prices reads very much like recent despatches from Vienna, describing the mobbing of leading hotels:

The washerwomen of Paris, finding soap so dear that they could hardly purchase it, insisted that all the merchants who were endeavoring to save something of their little property by refusing to sell their goods for the wretched currency with which France was flooded, should be punished with death; the women of the markets and the hangers-on of the Jacobin Club called loudly for a law "to equalize the value of paper money and silver coin." It was also demanded that a tax be laid especially on the rich, to the amount of four hundred million francs, to buy bread. Marat declared loudly that the people, by hanging shopkeepers and plundering stores, could easily remove the trouble. The result was that on the 28th of February, 1793, at eight o'clock in the evening, a mob of men and women in disguise began plundering the stores and shops of Paris. At first they demanded only bread; soon they insisted on coffee and rice and sugar; at last they seized everything on which they could lay their hands—cloth, clothing, groceries and luxuries of every kind. Two hundred such places were plundered. This was endured for six hours and finally order was restored only by a grant of seven million francs to buy off the mob.

The amount of assignats at last outstanding was approximately 40,000,000,000, by which time they had sunk in value so low that no effort was ever made to redeem them. Their legal tender quality was withdrawn and they were simply abandoned as worthless.

Present European Conditions

If we turn from Dr. White's account of conditions in France in the time of the assignats to current descriptions of conditions in Germany, Austria and the countries of Eastern Europe a striking similarity will be found. Owing to the inflation of the currencies and consequent depreciation, all obligations in terms of money have been practically wiped out. Mr. Rudolph S. Hecht, President of the Hibernian Bank & Trust Co., of New Orleans, who visited Germany last Summer, cites as an example the case of a man of his acquaintance, advanced in years, who retired from business before the war, converting his means into interest-bearing securities yielding him an income of about 10,000 marks, or approximately $2,500 per year. He still gets his 10,000 marks, but their present value in United States money is approximately $50 per year, and even in Germany their present value is not more than $200 per year and still declining.

The losses are most severe to the class of people who have endeavored to be most careful in their investments. Those who regard interest as robbery may consider this as nothing to be regretted, but the effect is to destroy the impulse to save, as in the time of the assignats. There is no object in saving money whose value probably will be less next month than now, or in lending for interest when the loss on principal probably will be greater than the interest.

The Provisional Economic and Financial Committee of the League of Nations, in a report published in June, 1921, referring to conditions in Austria, says:

All those whose assets were expressed in terms of money were ruined; persons with fixed incomes, pensioners—in short, the middle classes—have been utterly crushed, and are now in extreme poverty. Those who possessed or manufactured any kind of goods secured, nominally at least, considerable profits. Everyone, therefore, has attempted to make provision against this continual fall in the krone. Wage-earners and state employes, in order to counteract the rise in prices, exercised collective pressure and threatened to strike almost daily. But whatever success is obtained in this daily struggle to adapt conditions of life to the increasing fall in the currency, no one ever ventures to effect savings or economies in kronen. The latter would in a short time be reduced to a fraction of their original value. It is thought better to satisfy the pleasures of the moment. There is, therefore, a considerable inducement to spend.

"What is not spent in unproductive consumption is invested as soon as possible in real securities and estate, goods, jewels, antiquities, industrial securities, etc. But this natural tendency towards thrift is becoming a speculative fever. In the apparent profits which result from the rise in prices, that portion which represents actual labor loses its importance and becomes negligible. The illusion is fostered that profits may be made by simply hoarding goods or representative securities. Capital is thus diverted from productive enterprise to speculative uses. Luxury is growing greater and greater amongst the classes which have profited most by this kind of speculation, whilst the old middle classes, which are the guardians of tradition and social culture, are sinking deeper into misery."

A recent book of high value, descriptive of the European situation, entitled "America and the Balance Sheet of Europe," has been written by John F. Bass and Professor H. G. Moulton, the latter of the University of Chicago, who visited Europe last Summer. Describing the situation they say*:

* "America and the Balance Sheet of Europe," by John F. Bass and Harold G. Moulton, published by the Ronald Press, New York, pp. 124, 125.

Government deficits, price inflation, and fluctuating exchanges rapidly undermine business enterprise. Not only are the risks of ordinary industry greatly increased; but the sources of both private and government credit are in time dried up. * * * * * * * We have already seen how in Austria no one ever ventures to effect savings in kronen and how ordinary constructive industry has given way to a fever of speculation. This has always been an outstanding characteristic of disordered government and private finance. Why stand to lose one's interest or profits from ordinary financial or industrial undertakings as a result of uncontrollable price fluctuations, when fortunes may be made in speculation? It is not uncommon in Austria and other countries of central and eastern Europe for a commodity to pass through the hands of fifteen or twenty speculative middlemen —each taking toll through price advance—before it reaches the final consumer. Such business activity yields monetary profits, but it does not increase production. On the contrary it demoralizes industry.

The rapid mounting of prices and the accompanying disorganization of industry intensify social unrest. Wages must be rapidly advanced under penalty of strikes, and the dominance of the masses over the policies of government is steadily increased. This, of course, progressively complicates the difficulties of the situation and but paves the way for still further disorganization. Sooner or later certain basic industries, such as public utilities and transport, are broken down, and with this calamity disappears practically all hope of saving the whole complex industrial and commercial mechanism, the very existence of which depends upon the efficient functioning of these "key" industries."

One of the factors that contribute most to the demoralization of trade and industry when once a nation has started along the road we have been describing, is the rapid disappearance of that business or commercial morality which constitutes the very foundation of the modern industrial and credit system. It is said that commercial honesty is almost unknown in eastern Europe today. Why should any one be honest in his dealings, when the almost certain result is elimination from the field of business and starvation in the not distant future? Dishonesty becomes not only the best but the only policy.

The Gold Standard Must Be Restored

In summing up their account of the existing state of demoralization and of measures necessary for the restoration of industry and social order these writers say:

Before European and hence world economic prosperity can be restored, there must be a re-establishment of the gold standard in at least all of the leading commercial nations of the world. As we found in Chapter VI, every nation in Europe was forced during the war to abandon the gold standard, that is to say, it was forced to give up specie redemption of paper currency upon demand. All European nations without exception are still on the paper money basis, and with few exceptions the paper currency is now depreciated much more than it was even during the war period. The results of this depreciation of paper currency are manifested in fluctuating prices, hesitant business, and labor and social unrest in every country; while in some countries the steady monetary deterioration is causing a rapid disintegration of the entire economic system. Moreover, European paper currency, with its fluctuating value, is a primary factor in the oscillations of the exchanges which so disorganize international trading operations. There can be no real stability in domestic business within the several European countries, and no stability in international trade and finance, until the redeemability of paper currency in gold is once more reestablished. Interchangeability of gold and paper currency is necessary.

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